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Interest and other income, net:

(dollars in millions)	Twelve Months Ended December 31, 2006	2005	2004	2005 to 2006 Change	2004 to 2005 Change
Interest and other income, net	$ 14.3	$ 34.8	$ 8.4	(58.9)%	314.3%

For the twelve months ended December 31, 2006 as compared to the same period in 2005, the decrease in interest and other income, net consists primarily of gains on the repurchases of the outstanding convertible notes in 2005, that were issued in the first quarter of 2005 (approximately $24.0 million), offset in part by higher interest income primarily due to higher cash and marketable securities balances and higher interest rates (approximately $ 5.7 million) in 2006. Fiscal year 2006 interest and other income, net also includes $3.2 million of amortization of note issuance costs, including $2.4 million that was accelerated into the fourth quarter of 2006, in connection with the calling of the $160.0 million in convertible notes (see Note 16 "Convertible Notes" of Notes to Consolidated Financial Statements for more information).

For the twelve months ended December 31, 2005 as compared to the same period in 2004, the increase in interest and other income, net consists primarily of gains on the repurchases of the outstanding convertible notes that were issued in the first quarter of 2005 (approximately $24.0 million) and higher interest income primarily due to higher cash and marketable securities balances and higher interest rates (approximately $8.0 million), offset in part by amortization of note issuance costs (approximately $1.1 million), the 2004 pre-tax gain on the sale of our investment in Tessera (approximately $3.6 million), and the 2004 pre-tax gain in 2004 from a default payment by a sub-lessee of our former headquarters (approximately $0.4 million).

In the future, we expect that interest and other income, net will vary from period to period based upon the amount of cash and marketable securities and interest rates.

Provision for (benefit from) income taxes:

(dollars in millions)	Twelve Months Ended December 31, 2006	2005 As restated (1)	2004 As restated (1)	2005 to 2006 Change	2004 to 2005 Change
Provision for (benefit from) income taxes	$ (11.9)	$ 9.8	$ 6.8	(221.4)%	44.1%

(1) See Note 3, "Restatement of Consolidated Financial Statements," of the Notes to Consolidated Financial Statements.

In the twelve months ended December 31, 2006, our effective tax rate was approximately 46.3%, as compared with an effective rate of approximately 25.3% for the comparable period in 2005. The change in effective tax rate is primarily due to tax benefits from stock related compensation expense related to officers, disqualifying disposition of ESPPs and R&D credit, offset by non-deductible stock related compensation expense. The 2006 tax rate is higher than the statutory rate, primarily due to the R&D credit, partially offset by the lack of deductibility of stock-based compensation expense.

While we do not expect any impact to the effective tax rate for U.S. non-qualified stock option or restricted stock expense due to the adoption of SFAS 123(R), the effective tax rate may be negatively impacted by foreign stock option expense and stock option expense related to executive officers that may not be deductible. Also, SFAS 123(R) requires that the tax benefit of stock option deductions relating to incentive stock options and ESPPs be recorded in the period of disqualifying disposition. This could result in significant fluctuations in our effective tax rate between reporting periods. The effective tax rate for 2005 is lower than the statutory rate primarily due to the tax benefit from stock related compensation expense. The effective tax rate for 2004 is lower than the statutory rate primarily due to the R&D credit and foreign tax credits.

In the twelve months ended December 31, 2005, our effective tax rate was approximately 25.3% as compared with a rate of approximately 23.3% for the twelve months ended December 31, 2004. The effective tax rate increased primarily due to a change in research and development and foreign tax credits, offset by the tax benefit from stock related compensation expense related to officers in 2005.

In the twelve months ended December 31, 2006, our net deferred tax assets increased by $7.7 million, primarily due to the increase in future tax benefits related to litigation expenses, additional tax credits and net operating losses unrelated to stock option windfall benefits, offset by a decrease in future tax benefits related to depreciation and amortization and employee stock related compensation. Pursuant to Footnote 82 of SFAS No. 123(R), tax attributes related to stock option windfall deductions should not be recorded until they result in a reduction of cash taxes payable. On a prospective basis, we

no longer include net operating losses attributable to stock option windfall deductions as components of our gross deferred tax assets. Therefore, our unrealized federal and state net operating losses excluded for the year ended December 31, 2006 are $62.9 million and $65.2 million, respectively. The benefit of these net operating losses will be recorded to equity when they reduce cash taxes payable.

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Liquidity and Capital Resources

(in millions)	Twelve Months Ended December 31, 2006	2005 As restated (1)	2004 As restated (1)
Cash flows			
Net cash provided by operating activities	$ 63.4	$ 33.8	$ 43.7
Net cash used in investing activities	$ (68.3)	$ (139.3)	$ (60.9)
Net cash provided by financing activities	$ 35.8	$ 99.7	$ 23.4

(1) See Note 3, "Restatement of Consolidated Financial Statements," of the Notes to Consolidated Financial Statements.

As of December 31, 2006, we had cash and cash equivalents and marketable securities of $436.3 million, including a long-term component of $12.0 million. As of December 31, 2006, we had total working capital of $224.3 million, including a short-term component of deferred revenue of $6.0 million. Deferred revenue represents the excess of billings to licensees over revenue recognized on license contracts, and the short-term component represents the amount of this deferred revenue expected to be recognized over the next twelve months.

Operating Activities

Cash generated by operating activities in the twelve months ended December 31, 2006 was $63.4 million primarily the result of a net loss of $13.8 million, adjusted for certain non-cash items, including increases resulting from stock-based compensation expense of $40.5 million, depreciation of $11.2 million, amortization of intangible assets of $5.3 million, amortization of $3.2 million of note issuance costs, including an additional $2.4 million in connection with the notice of acceleration relating to the $160.0 million of our convertible notes, and others $0.4 million, offset by a net tax shortfall of $3.9 million driven principally by the forfeiture of stock options of our former CEO. In addition, cash generated by operating activities was positively impacted by an increase in accounts and taxes payable, accrued salaries and benefits and other accrued liabilities of $31.8 million, primarily from $18.0 million to settle litigation, $6.1 million obligation to a strategic partner under a fixed term license agreement, and $4.7 million in employee bonuses. Cash generated by operating activities was partially offset by an increase in accounts receivable and unbilled receivables of $1.6 million, an increase in prepaid expenses and other assets of $7.9 million, principally from deferred taxes, and a net decrease in deferred revenue of $1.7 million.

Cash generated by operating activities was $33.8 million in the twelve months ended December 31, 2005, and was primarily the result of net income of $28.9 million adjusted for certain non-cash items, including depreciation of $9.1 million, amortization of note issuance costs of $1.1 million, amortization of intangible assets of $4.3 million, stock-based compensation of $20.5 million, tax benefit of stock options of $0.7 million, and loss on disposal of assets of $0.2 million, offset by a $24.0 million gain on repurchase of convertible notes. Operating activities were also affected by a decrease in accounts receivable of $0.5 million, a decrease in prepaid expenses, deferred taxes and other assets of $5.7 million primarily due to our election to capitalize certain research and development expenses for tax purposes, and an increase in accounts and taxes payable, accrued salaries and benefits and other accrued liabilities of $1.4 million. This cash generated from operating activities was partially offset by a net decrease in deferred revenue of $14.5 million resulting from contract revenues recognized in excess of contract billings primarily related to increased revenues for XDR and FlexIO chip interface contracts in which billings were made in the prior year.

Cash generated by operating activities was $43.7 million in the twelve months ended December 31, 2004, and was primarily the result of net income of $22.4 million adjusted for certain non-cash items, including depreciation of $5.6 million, amortization of intangible assets of $2.5 million, tax benefit of stock options exercised of $23.2 million, and stock-based compensation of $18.8 million, offset by a gain on sale of investment of $3.6 million. Operating activities were also affected positively by a decrease in accounts receivable of $8.8 million primarily

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related to payments received under XDR and FlexIO chip interface contracts, and an increase in accounts and taxes payable, accrued salaries and benefits and other accrued liabilities of $6.6 million. This cash generated from operating activities was partially offset by an increase in prepaid expenses, deferred taxes and other assets of $22.2 million primarily due to our election to capitalize certain research and development expenses for tax purposes and a net decrease in deferred revenue of $18.4 million resulting from contract revenues recognized in excess of contract billings primarily related to increased revenues for XDR and FlexIO chip interface contracts in which billings were made in the prior year.

Investing Activities

Cash used in investing activities was $68.3 million in the twelve months ended December 31, 2006, and primarily consisted of purchases of marketable securities of $215.2 million, offset by maturities of $166.2 million. In addition, $1.0 million was used to acquire certain proprietary assets from GDA, $0.3 million was used to purchase intangible assets, $14.9 million was used to acquire property and equipment, primarily computer and software and $3.1 million was used to acquire leasehold improvements.

Cash used in investing activities was $139.3 million in the twelve months ended December 31, 2005, and primarily consisted of purchases of marketable securities of $347.7 million resulting from the investment of a portion of the net proceeds from the issuance of convertible notes, offset by maturities of $222.1 million. In addition, $5.4 million was used to acquire certain proprietary digital core designs from GDA, $2.5 million was used to acquire certain serial link intellectual property assets from Cadence and $8.6 million was used for the purchase of property and equipment, including computer and software purchases in the United States and computer equipment, software, leasehold improvements and office equipment and furniture for a new facility in India. The change is partially offset by a reduction in restricted cash of $2.8 million due to the settlement in the Infineon case, which removed the restrictions on these assets.

Cash used in investing activities was $60.9 million for the twelve months ended December 31, 2004, and primarily consisted of purchases of marketable securities of $119.4 million, offset by maturities of $76.8 million, and cash paid for the acquisition and related acquisition costs of certain serial link intellectual property assets from Cadence totaling $11.1 million, $12.3 million for purchases of property and equipment and leasehold improvements (including software tools purchased from Cadence), and a $0.5 million increase in restricted cash. These uses of cash were partially offset by proceeds of $5.6 million from the sale of our investment in Tessera for which we recorded a $3.6 million gain.

Financing Activities

Net cash provided by financing activities was $35.8 million in the twelve months ended December 31, 2006. We received net proceeds of $57.6 million from the issuance of Common Stock associated with exercises of employee stock options and Common Stock issued under our employee stock purchase plan, partially offset by repurchases of our Common Stock of $21.0 million. In addition, we made a $0.8 million installment payment on a $2.8 million agreement related to a fixed asset purchase in 2005.

Net cash provided by financing activities was $99.7 million in the twelve months ended December 31, 2005. We received net proceeds from the issuance of convertible notes of $292.8 million and net proceeds from the issuance of Common Stock associated with exercises of employee stock options and Common Stock issued under our employee stock purchase plan of $8.5 million. This cash provided from the issuance of convertible notes and Common Stock was partially offset by the repurchase of our Common Stock of $88.2 million and the repurchases of outstanding convertible notes of $113.0 million. In addition, we repaid approximately $0.4 million against an installment payment plan used to acquire capitalized software.

Cash generated by financing activities was $23.4 million in the twelve months ended December 31, 2004, and was the result of net proceeds of $45.1 million from the issuance of Common Stock associated with exercises of employee stock options and stock issued under the employee stock purchase plan. This cash provided from the issuance of Common Stock was partially offset by $21.7 million we used to repurchase Common Stock under our stock repurchase program.

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We currently anticipate that existing cash and cash equivalent balances and cash flows from our operating activities will be adequate to meet our cash needs for at least the next 12 months. As described elsewhere in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and this report, we are involved in ongoing litigation related to our intellectual property and our stock option investigation. Any adverse settlements or judgments in this litigation could have a material adverse impact on our results of operations, cash balances and cash flows in the period in which such events occur. In addition, as described elsewhere in this report, the Trustee for our convertible notes has alleged that an event of default with respect to the convertible notes has occurred and has called for the acceleration of payment of those convertible notes. We are evaluating our options with respect to the convertible notes as a result of the receipt of the notice of acceleration. We believe that we have adequate financial resources to pay any unpaid principal and any accrued or default interest due on the notes.

Contingent Warrants, Common Stock Equivalents, and Options

Warrants

In October 1998, our Board of Directors authorized an incentive program in the form of warrants for a total of up to 1,600,000 shares of our Common Stock to be issued to various RDRAM licensees. The warrants, which were issued at the time certain targets were met, have an exercise price of $2.50 per share and a life of five years from the date of issuance. These warrants vest and become exercisable only upon the achievement of certain milestones by Intel relating to shipment volumes of RDRAM chipsets. Warrants exercisable for a total of 1,520,000 shares of our Common Stock had been issued under the program. As of December 31, 2006, no warrants were exercised as the defined milestones were not achieved, and all warrants have expired.

Contingent Common Stock Equivalents and Options

As of December 31, 2005, there were 1,000,000 contingent unvested Common Stock Equivalents, or CSEs, and 799,346 contingent unvested options, which vest upon the achievement of certain milestones by Intel relating to shipment volumes of RDRAM 850E chipsets. These CSEs were granted to our previous Chief Executive Officer and President in 1999 and the options were granted to certain of our employees in 1999 and 2001. The CSEs were granted with a term of 10 years and the options were granted with an exercise price of $2.50 and a term of 10 years. It was previously expected that there would be a non-cash charge to our statement of operations, based on fair value of the CSEs and options, when the achievement of certain Intel milestones became probable. Intel has since phased out the 850E chipset and as a result, the unvested CSEs and options will never vest.

During the year ended December 31, 2006, 77,500 contingent unvested options were forfeited and all of the contingent unvested CSEs were forfeited unvested when the officers terminated their services. As of December 31, 2006, there were no contingent unvested CSEs and 721,846 contingent unvested options. As noted above, none are expected to vest.

Share Repurchase Program

In October 2001, our Board of Directors approved a share repurchase program of our Common Stock principally to reduce the dilutive effect of employee stock options. On January 23, 2006 our Board of Directors approved an authorization to repurchase up to an additional 5.0 million shares of our Common Stock, giving us a total authorization to purchase up to 19.0 million shares of our outstanding Common Stock over an undefined period of time. During the first quarter of fiscal 2006, we repurchased 0.7 million shares at an average price per share of $29.94. As of December 31, 2006, we had repurchased a cumulative total of 13.2 million shares of our Common Stock at an average price per share of $13.95 since the commencement of this program. This amount includes 4.1 million shares repurchased in connection with our $300.0 million zero coupon convertible senior subordinated note offering on February 1, 2005. As

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of December 31, 2006, there remained an outstanding authorization to repurchase 5.8 million shares of our outstanding Common Stock. In connection with the stock options investigation, repurchases of Common Stock under this program were suspended as of July 19, 2006. We will not repurchase additional shares until after we are current with our SEC filings.

Contractual Obligations

We lease our present office facilities in Los Altos, California, under an operating lease agreement through December 31, 2010. As part of this lease transaction, we provided a letter of credit restricting $600,000 of our cash as collateral for certain of our obligations under the lease. The cash is restricted as to withdrawal and is managed by a third party subject to certain limitations under our investment policy. We also lease a facility in Mountain View, California, through November 11, 2009, Chapel Hill, North Carolina through November 15, 2009 and lease a facility for our design center in Bangalore, India through November 30, 2009. In addition, as a result of our acquisition of GDA in 2005, we entered into a lease for an additional facility in Bangalore, India through March 31, 2007, which was recently extended through mid-November 2007. The Company also leases office facilities in Austin, Texas and various international locations under non-cancelable leases that range in terms from month-to-month to one year.

In May 2006, we signed an agreement to lease a new office facility in Bangalore, India into which we intend to consolidate all of our Bangalore operations. We are currently awaiting receipt of a certificate of occupancy or confirmation of deemed occupancy under local statutes in order for us to occupy the building.

On February 1, 2005, we issued $300.0 million aggregate principal amount of convertible notes due February 1, 2010 to Credit Suisse First Boston LLC and Deutsche Bank Securities, as initial purchasers who then sold the convertible notes to institutional investors. We elected to pay the principal amount of the convertible notes in cash when they are due and the initial conversion price of the convertible notes is $26.84 per share. Subsequently, we repurchased a total of $140.0 million face value of the outstanding convertible notes. As a result, the convertible notes outstanding and payable as of December 31, 2005 were reduced to $160.0 million.

On August 17, 2006, we received a notice of default from U.S. Bank National Association, as trustee (the "Trustee") for the convertible notes. The notice asserted that our failure to file our Form 10-Q for the quarter ended June 30, 2006 constituted a default under Sections 7.2 and 14.1 of the Indenture, dated as of February 1, 2005 between us and the Trustee (the "Indenture"). The notice stated that per Section 9.1 of the Indenture, if we did not cure the default within sixty days of August 17, 2006, an event of default would occur. On October 25, 2006, we received a notice from the Trustee stating that since we had not cured the default that had been asserted by the Trustee within the sixty day cure period, an event of default had in fact occurred as of October 16, 2006. On January 22, 2007, we received an additional notice of default from the Trustee relating to our failure to file our Form 10-Q for the quarter ended September 30, 2006. On July 31, 2007, we received a notice of acceleration from the Trustee stating that under direction received from holders of more than 25% in aggregate principal amount of the outstanding convertible notes, the Trustee was declaring the unpaid principal plus accrued interest and unpaid liquidated damages immediately due and payable. Default interest on the notes accrues at a rate of 2% per annum from the date on which full payment of the notes is due to the date that full payment is made.

As of December 31, 2006, we have reclassified the aggregate principal amount of the convertible notes of $160.0 million from non-current liabilities to current liabilities and reflected them as due in less than one year in the following table. We are evaluating our options with respect to the notes as a result of the receipt of the notice of acceleration and believe that we have adequate financial resources to pay any unpaid principal and any accrued or default interest due on the convertible notes. See Note 16 "Convertible Notes" of Notes to Consolidated Financial Statements for a detailed discussion of this matter.

In connection with certain German litigation, the German courts have requested that we set aside adequate funds to cover potential court cost claims. Accordingly, approximately $1.7 million is restricted as to withdrawal, managed by a third party subject to certain limitations under our investment policy and included in restricted cash to cover the German court requirements.

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As of December 31, 2006, our material contractual obligations are:

(in thousands)	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations					
Operating leases	$ 23,239	$ 6,446	$11,728	$ 5,065	$ —
Convertible notes	160,000	160,000	—	—	—
Purchased software license agreements (1)	8,212	7,394	818	—	—
Total	$191,451	$173,840	$12,546	$ 5,065	$ —

(1) We have commitments with various software vendors for non-cancellable license agreements that generally have terms longer than one year. The above table summarizes those contractual obligations as of December 31, 2006, which are also listed on our balance sheet under current and other long-term liabilities.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, investments, income taxes, litigation and other contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Overview

Our revenue recognition policy is based on the American Institute of Certified Public Accountants Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2") as amended by Statement of Position 98-4 ("SOP 98-4") and Statement of Position 98-9 ("SOP 98-9"). For certain of our revenue contracts, revenue is recognized according to Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" ("SOP 81-1").

In application of the specific authoritative literature cited above, we comply with Financial Accounting Standards Board Statement of Financial Accounting Concepts No. 5 and 6. We recognize revenue when persuasive evidence of an arrangement exists, we have delivered the product or performed the service, the fee is fixed or determinable and collection is reasonably assured. If any of these criteria are not met, we defer recognizing the revenue until such time as all criteria are met. Determination of whether or not these criteria have been met may require us to make judgments, assumptions and estimates based upon current information and historical experience.

Our revenue consists of royalty revenues and contract revenues generated from agreements with semiconductor companies, system companies and certain reseller arrangements. Royalty revenues consist of patent license royalties and product license royalties. Contract revenues consist of fixed license fees, fixed engineering fees and service fees associated with integration of our chip interface products into our customers' products. Contract revenues may also

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include support or maintenance. Reseller arrangements generally provide for the pass-through of a percentage of the fees paid to the reseller by its customer for use of our patent and product licenses. We do not recognize revenue for these arrangements until we have received notice of revenue earned by and paid to the reseller, accompanied by the pass-through payment from the reseller. We do not pay commissions to the reseller for these arrangements.

Many of our licensees have the right to cancel their licenses. In such arrangements revenue is only recognized to the extent that is consistent with the cancellation provisions. Cancellation provisions within such contracts generally provide for a prospective cancellation with no refund of fees already remitted by customers for products provided and payments for services rendered prior to the date of cancellation. Unbilled receivables represent enforceable claims and are deemed collectible in connection with our revenue recognition policy.

Royalty Revenues

We recognize royalty revenues upon notification by the licensees and if collectibility is reasonably assured. The terms of the royalty agreements generally either require licensees to give us notification and to pay the royalties within 60 days of the end of the quarter during which the sales occur or are based on a fixed royalty that is due within 45 days of the end of the quarter. From time to time, we engage accounting firms other than our independent registered public accounting firm to perform, on our behalf, periodic audits of some of the licensee's reports of royalties to us and any adjustment resulting from such royalty audits is recorded in the period such adjustment is determined. We have two types of royalty revenues: (1) patent license royalties and (2) product license royalties.

Patent licenses. We license our broad portfolio of patented inventions to semiconductor and systems companies to use these inventions in the development and manufacture of their own products. Such licensing agreements may cover the license of part, or all, of our patent portfolio. We generally recognize revenue from these arrangements as amounts become due and payable. The contractual terms of the agreements generally provide for payments over an extended period of time.

Product licenses. We develop proprietary and industry-standard chip interface products, such as RDRAM and XDR that we provide to our customers under product license agreements. These arrangements include royalties, which can be based on either a percentage of sales or number of units sold. We recognize revenue from these arrangements upon notification from the licensee and if collectibility is reasonably assured.

Contract Revenues

We generally recognize revenue in accordance the provisions of SOP 81-1 for development contracts related to licenses of our chip interface products, such as XDR and FlexIO that involve significant engineering and integration services. Revenues derived from such license and engineering services may be recognized using the completed contract or percentage-of-completion method. For all license and service agreements accounted for using the percentage-of-completion method, we determine progress to completion using input measures based upon labor-hours incurred. We have evaluated use of output measures versus input measures and have determined that our output is not sufficiently uniform with respect to cost, time and effort per unit of output to use output measures as a measure of progress to completion. Part of these contract fees may be due upon the achievement of certain milestones, such as provision of certain deliverables by us or production of chips by the licensee. The remaining fees may be due on pre-determined dates and include significant up-front fees.

A provision for estimated losses on fixed price contracts is made, if necessary, in the period in which the loss becomes probable and can be reasonably estimated. If we determine that it is necessary to revise the estimates of the work required to complete a contract, the total amount of revenue recognized over the life of the contract would not be affected. However, to the extent the new assumptions regarding the total amount of work necessary to complete a project were less than the original assumptions, the contract fees would be recognized sooner than originally expected.

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Conversely, if the newly estimated total amount of work necessary to complete a project was longer than the original assumptions, the contract fees will be recognized over a longer period. If there is significant uncertainty about the time to complete or the deliverables by either party, we evaluate the appropriateness of applying the completed contract method of accounting under SOP 81-1. Such evaluation is completed by us on a contract-by-contract basis. For all contracts where revenue recognition must be delayed until the contract deliverables are substantially complete, we evaluate the realizability of the assets which the accumulated costs would represent and defer or expense as incurred based upon the conclusions of our realization analysis.

If application of the percentage-of-completion method results in recognizable revenue prior to an invoicing event under a customer contract, we will recognize the revenue and record an unbilled receivable. Amounts invoiced to our customers in excess of recognizable revenues are recorded as deferred revenues. The timing and amounts invoiced to customers can vary significantly depending on specific contract terms and can therefore have a significant impact on deferred revenues or unbilled receivables in any given period.

We recognize revenue in accordance with SOP 97-2, SOP 98-4 and SOP 98-9 for development contracts related to licenses of our chip interface products that involve non-essential engineering services and post contract support ("PCS"). These SOPs apply to all entities that earn revenue on products containing software, where software is not incidental to the product as a whole. Contract fees for the products and services provided under these arrangements are comprised of license fees and engineering service fees which are not essential to the functionality of the product. Our rates for PCS and for engineering services are specific to each development contract and not standardized in terms of rates or length. Because of these characteristics, we do not have a sufficient population of contracts from which to derive vendor-specific objective evidence.

Therefore, as required by SOP 97-2, after we deliver the product, if the only undelivered element is PCS, we will recognize revenue ratably over either the contractual PCS period or the period during which PCS is expected to be provided. We review assumptions regarding the PCS periods on a regular basis. If we determine that it is necessary to revise the estimates of the support periods, the total amount of revenue to be recognized over the life of the contract would not be affected. However, if the new estimated periods were shorter than the original assumptions, the contract fees would be recognized ratably over a shorter period. Conversely, if the new estimated periods were longer than the original assumptions, the contract fees would be recognized ratably over a longer period.

Litigation

We are involved in certain legal proceedings, as discussed in Note 17, "Litigation and Asserted Claims" of Notes to Consolidated Financial Statements of this Form 10-K. Based upon consultation with outside counsel handling our defense in these matters and an analysis of potential results, we accrue for losses related to litigation if we determine that a loss is probable and can be reasonably estimated. If a specific loss amount cannot be estimated, we review the range of possible outcomes and accrue the low end of the range of estimates. Any such accrual would be charged to expense in the appropriate period. We recognize litigation expenses in the period in which the litigation services were provided.

Income Taxes

As part of preparing our consolidated financial statements, we are required to calculate the income tax expense or benefit which relates to the pretax income or loss for the period. In addition, we are required to assess the realization of the tax asset or liability to be included on the consolidated balance sheet as of the reporting dates.

This process requires us to calculate various items including permanent and temporary differences between the financial accounting and tax treatment of certain income and expense items, differences between federal and state tax treatment of these items, the amount of taxable income reported to various states, foreign taxes and tax credits. The differing treatment of certain items for tax and accounting purposes results in deferred tax assets and liabilities, which are included on our consolidated balance sheet.

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At December 31, 2006, our balance sheet included net deferred tax assets of approximately $109.6 million, relating primarily to the difference between tax and book treatment of depreciation and amortization, employee stock related compensation expenses, net operating loss and tax credit carryovers.

We periodically evaluate the realizability of the deferred tax assets based on all available evidence, both positive and negative. Future taxable income and other factors determine how much benefit we ultimately realize from deferred tax assets. If our estimate of future taxable income or the overall expected realizability of the deferred tax assets changes, a valuation allowance may have to be recorded, which could materially impact our financial position and results of operation.

Stock-Based Compensation

Prior to January 1, 2006, we accounted for stock-based awards and our Employee Stock Purchase Plan using the intrinsic method in accordance with APB Opinion No. 25, *"Accounting for Stock Issued to Employees,"* FASB Interpretation No. 44 ("FIN 44"), *"Accounting for Certain Transactions Involving Stock-Based Compensation, an Interpretation of APB Opinion No. 25,"* FASB Technical Bulletin No. 97-1 ("FTB 97-1") *"Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option,"* and related interpretations and provided the required pro forma disclosures of SFAS 123 *"Accounting for Stock-Based Compensation."* In accordance with APB 25, a non-cash, stock-based compensation expense was recognized for any options for which the exercise price was below the market price on the actual grant date and for any grants that were modified from their original terms. The charge for the options with an exercise price below the market price on the actual grant date was equal to the number of options multiplied by the difference between the exercise price and the market price of the option shares on the actual grant date. That expense was amortized over the vesting period of the options. The charge for modifications of options in general was equal to the number of options modified multiplied by the difference between the market price of the options on the modification date and the grant price. The charge for modified options was taken over the remaining service period, if any. See Note 3, "Restatement of Consolidated Financial Statements" of Notes to Consolidated Financial Statements for more information on the restatement of our financial statements for periods prior to January 1, 2006.

Effective January 1, 2006, we adopted SFAS 123(R), which requires the measurement at fair value and recognition of compensation expense for all stock-based payment awards. We selected the modified prospective method of adoption which recognizes compensation expense for the fair value of all stock-based payments granted after January 1, 2006 and for the fair value of all awards granted to employees prior to January 1, 2006 that remain unvested on the date of adoption. We use the Black-Scholes-Merton ("BSM") option pricing model to estimate the fair value of our stock option and Employee Stock Purchase Plan ("ESPP") awards consistent with the provisions of SFAS 123(R). The BSM option-pricing model requires the estimation of highly complex and subjective variables. These variables include expected volatility, expected life of the award, expected dividend rate and expected risk-free rate of return. The assumptions for expected volatility and expected life are the two assumptions that most significantly affect the grant date fair value. The expected stock price volatility assumption was determined using the implied volatility of the Company's

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Common Stock. We use implied volatility for both our stock options and ESPP shares based on freely traded options in the open market, as we believe implied volatility is more reflective of market conditions and a better indicator of expected volatility than historical or blended volatility. If there is not sufficient volume in our market traded options for any period, we will use an equally weighted blend of historical and implied volatility. The expected term assumption for our stock option grants was determined using a Monte Carlo simulation model which projects future option holder behavior patterns based upon actual historical option exercises. SFAS 123(R) also requires the application of a forfeiture rate to the calculated fair value of stock options on a prospective basis. Our assumption of forfeiture rate represents the historical rate at which our stock-based awards were surrendered prior to vesting over the trailing four years. If our assumption of forfeiture rate changes, we would have to make a cumulative adjustment in the current period. We monitor the assumptions used to compute the fair value of our stock options and ESPP awards on a regular basis and we will revise our assumptions as appropriate. In the event that assumptions used to compute the fair value of these awards are later determined to be inaccurate or if we change our assumptions significantly in future periods, stock-based compensation expense and our results of operations could be materially impacted. See Note 2 "Summary of Significant Accounting Policies" section "Stock-based compensation" of Notes to Consolidated Financial Statements for more information regarding the valuation of stock-based compensation.

Recent Accounting Pronouncements

See Note 2, "Summary of Significant Accounting Policies" of Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoption.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to financial market risks, primarily arising from the effect of interest rate fluctuations on our investment portfolio. Interest rate fluctuation may arise from changes in the market's view of the quality of the security issuer, the overall economic outlook, and the time to maturity of our portfolio. We mitigate this risk by investing only in high quality, highly liquid instruments. Securities with original maturities of one year or less must be rated by two of the three industry standard rating agencies as follows: A1 by Standard & Poor's, P1 by Moody's and/or F-1 by Fitch. Securities with original maturities of greater than one year must be rated by two of the following industry standard rating agencies as follows: AA- by Standard & Poor's, Aa3 by Moody's and/or AA- by Fitch. By corporate policy, we limit the amount of our credit exposure to $10.0 million for any one commercial issuer. Our policy requires that at least 10% of the portfolio be in securities with a maturity of 90 days or less. In addition, we may make investments in securities with maturities up to 36 months. However, the bias of our investment policy is toward shorter maturities.

We invest our cash equivalents and short-term investments in a variety of U.S. dollar financial instruments such as *Treasuries, Government Agencies, Repurchase Agreements, Commercial Paper and Bankers' Acceptance.* Our policy specifically prohibits trading securities for the sole purposes of realizing trading profits. However, we may liquidate a portion of our portfolio if we experience unforeseen liquidity requirements. In such a case if the environment has been one of rising interest rates we may experience a realized loss, similarly, if the environment has been one of declining interest rates we may experience a realized gain. As of December 31, 2006, we had an investment portfolio of fixed income marketable securities of $363.0 million excluding cash and cash equivalents. If market interest rates were to increase immediately and uniformly by 10% from the levels as of December 31, 2006, the fair value of the portfolio would decline by approximately $0.8 million. Actual results may differ materially from this sensitivity analysis.

We bill our customers in U.S. dollars. Although the fluctuation of currency exchange rates may impact our customers, and thus indirectly impact us, we do not attempt to hedge this indirect and speculative risk. Our overseas operations consist primarily of business development offices of from 3 to 11 people in any one country and one design center in India. We monitor our foreign currency exposure; however, as of December 31, 2006, our foreign currency exposure is not material enough to warrant foreign currency hedging.

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The table below summarizes the book value, fair value, unrealized losses and related weighted average interest rates for our marketable securities portfolio as of December 31, 2006 and 2005:

	Twelve months ended December 31, 2006			
(dollars in thousands)	Fair Value	Book Value	Unrealized Gain/ (Loss)	Average Rate of Return (annualized)
Marketable securities:				
United States government debt securities	$226,813	$227,576	$ (763)	4.2%
Corporate notes and bonds	136,224	136,417	(193)	5.2%
Total marketable securities	$363,037	$363,993	$ (956)	

	Twelve months ended December 31, 2005			
(dollars in thousands)	Fair Value	Book Value	Unrealized Gain/ (Loss)	Average Rate of Return (annualized)
Marketable securities:				
United States government debt securities	$280,659	$283,018	$ (2,359)	3.8%
Corporate notes and bonds	32,340	32,705	(365)	2.4%
Total marketable securities	$312,999	$315,723	(2,724)	

Item 8. Financial Statements and Supplementary Data

See Item 15 "Exhibits and Financial Statement Schedules" of this Form 10-K for required financial statements and supplementary data.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Background to the Restatement

Audit Committee Investigation of Historical Stock Option Practices

In early 2006, an academic study and numerous subsequent press reports began to publicize the likely widespread occurrence of accounting and corporate governance irregularities with respect to the granting of stock options and other equity awards at over 100 companies, many in the high-tech sector. One report included Rambus as one of the companies surveyed with a high risk of having backdated stock option grants. As a result, in late May 2006, we conducted an initial review in which we discovered apparent irregularities in past stock option grants and reported our findings to the Audit Committee and the Board of Directors.

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On May 30, 2006, the Audit Committee commenced an internal investigation of the timing of past stock option grants and other related accounting issues. Each of the members of the Audit Committee had joined our Board of Directors and Audit Committee after January 1, 2005. The Audit Committee retained independent legal counsel and an independent accounting firm to assist in the investigation.

On July 17, 2006, the Audit Committee concluded that the actual dates of determination for certain past stock option grants differed from the originally stated grant dates for such awards. Because the prices at the originally stated grant dates were lower than the prices on the actual dates of determination, we concluded that we should have recognized material amounts of stock-based compensation expense which were not accounted for in our previously issued consolidated financial statements. Therefore, the Audit Committee and management, concluded that our previously issued consolidated financial statements for the fiscal years 2003, 2004 and 2005, which were included in our 2005 Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q filed with respect to each of the applicable quarters in these fiscal years, and the consolidated financial statements included in our Quarterly Report on Form 10-Q for the first quarter of fiscal year 2006, should no longer be relied upon and would be restated.

By October 18, 2006, the Audit Committee had substantially completed its findings with respect to the timing of the Company's historical stock option grants. The independent investigation over the previous four months included a review of over 200 stock option granting actions from the time of our initial public offering through the commencement of the investigation in late May 2006. The review encompassed over 1.5 million emails and other documents, and over 50 interviews with current and former executive officers, directors, employees and advisors.

The results of the investigation were consistent with the Audit Committee's earlier conclusion that our previously filed consolidated financial statements should no longer be relied upon. We are disclosing the restatement of the consolidated financial statements for the affected periods by filing this Form 10-K for the fiscal year ended December 31, 2006, which includes the restatement of the consolidated financial statements for the 2005 and 2004 fiscal years, as well as restated consolidated financial data for the first quarter of 2006. In addition, the errors we identified impacted our consolidated financial statements for the periods prior to the year ended December 31, 2004. In the 2006 Form 10-K, the cumulative impact of the errors as of December 31, 2003 is represented as a change to the opening balance of accumulated deficit, additional paid in capital and deferred tax assets as of January 1, 2004. The impact of these errors will continue to have an effect on our consolidated financial statements through fiscal 2009.

The impact of these errors also extended to the quarter ended March 31, 2006. Our previously filed consolidated financial statements for the quarter ended March 31, 2006, related management's discussion and analysis of financial condition and results of operations and certain tables and disclosures related to APB 25, SFAS 123 and SFAS 123(R) are restated in Exhibit 99.1. We have filed interim consolidated financial statements on Form 10-Q for the period ended June 30, 2006 and the period ended September 30, 2006. In these quarterly consolidated financial statements, the cumulative impact of the errors as of December 31, 2004 is represented as a change to the opening balance of accumulated deficit, additional paid in capital and deferred taxes as of January 1, 2005.

Other balance sheet items related to prior periods affected by the restatement are reflected in the opening balances of the consolidated balance sheet as of January 1, 2004.

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Findings Concerning Stock Option Grant Controls and Procedures

On August 30, 2007, the Audit Committee completed its investigation. The Audit Committee concluded that: (1) there was retroactive pricing of stock options granted to nearly all employees who received options, primarily during the periods from September 30, 1997 to December 31, 2004; (2) the retroactively priced options were not accounted for correctly in the Company's previously issued consolidated financial statements; (3) the retroactive pricing of options in many instances was intentional, not inadvertent or as a result of administrative error; (4) the retroactive pricing of options involved the selection of low exercise prices by certain former executive officers, and other former executives may have been aware of this conduct; (5) vesting terms on stock options for certain terminating employees were changed without proper authorization; and (6) the retroactive pricing of options in many instances involved the falsification of Stock Option Committee Memoranda, Unanimous Written Consents (UWC) and minutes of the Compensation Committee and offer letters to employees, resulting in erroneous statements being made in financial and other reports previously filed with the SEC, as well as in information previously provided to the Company's independent registered public accounting firm.

Because the retroactive pricing was the result of the actions of only a few individuals, the Board of Directors decided that the Company should continue to honor the retroactively priced options in most instances.

The Audit Committee further concluded that our former Chief Financial Officers and Controllers should have been more involved in understanding whether stock option grants were being properly accounted for, and either knew the proper accounting rules or should have taken steps to become aware of the proper accounting rules for stock option grants. At the time of these practices, it was the reasonable practice of our former Chief Financial Officers and Controllers to rely on senior executives of the Company to create accurate records of the stock option approvals and grants. Our former CEO participated in the approval of misdated stock option grants. He knew or should have been aware of the fact that date selection practices were occurring and that the approval memoranda he signed were not properly reflecting the actual approval dates. However, the Audit Committee also concluded that it was reasonable for the former CEO to believe that the Senior Vice President, Administration was handling the Company's stock option grants in accordance with the appropriate legal and accounting rules for stock option grants and understood the Company's actual practices.

Concurrent with the review by the Audit Committee, our management, under the oversight of the Audit Committee, completed an internal review of our previously recorded accounting for stock option based compensation expenses and subsequently made adjustments for: (a) stock option grants for which the Audit Committee determined that the actual grant date for accounting purposes was different from the stated grant date for new hire grants to employees, annual and other grants to employees, and any grants to officers; (b) grants made to individuals who had extensions of option termination dates and, in some cases, extensions of vesting periods pursuant to separation agreements under which the individuals did not perform any significant duties during the separation period and were employees in name only; (c) payroll tax withholding liabilities for certain repriced stock grants that no longer qualify for ISO tax treatment; and (d) other miscellaneous adjustments for modifications and errors, including adjustments for grants to non-employees providing consulting services, and adjustments for continued vesting after an individual converted from an employee to a consultant role and tax effect for each of the adjustments noted above.

During the course of the review, we also identified certain other errors in accounting determinations and judgments related to transactions occurring in prior fiscal years that, although not significant, current management has included in the restated consolidated financial statements. Restatement adjustments are further described in Note 3 "Restatement of Consolidated Financial Statements" of Notes to the Consolidated Financial Statements.

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our current CEO and current CFO, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such terms are defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange

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Act"), as of December 31, 2006, the end of the period covered by this Annual Report on Form 10-K. Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and communicated to management, including our CEO and CFO. To the extent that components of our internal control over financial reporting are included within our disclosure controls and procedures, they are included in the scope of management's annual assessment of our internal control over financial reporting.

Based on this evaluation, our management, including our current CEO and current CFO, has concluded that our disclosure controls and procedures were not effective as of December 31, 2006 because of the material weakness in our internal control over financial reporting discussed below. Notwithstanding the material weakness described below, our current management has concluded that the Company's consolidated financial statements for the periods covered by and included in this Annual Report on Form 10-K are fairly stated in all material respects in accordance with generally accepted accounting principles in the U. S. for each of the periods presented herein.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our management, including the CEO and CFO conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2006 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework.*

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements would not be prevented or detected. Management has determined that we have the following material weakness in our internal control over financial reporting as of December 31, 2006.

Insufficient personnel with appropriate accounting knowledge and training: We lacked a sufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with our financial reporting requirements. Specifically, this control deficiency resulted in audit adjustments that corrected an understatement of revenue and audit adjustments to deferred revenue, deferred

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rent, property and equipment, depreciation, consulting expenses and certain accrual accounts and disclosures in the consolidated financial statements for the year ended December 31, 2006, primarily arising from an insufficient review by us as to relevant information obtained through communications with personnel in operations and through review of certain key contracts and agreements of unique transactions for such accounts. Additionally, this control deficiency could result in misstatements of the aforementioned accounts and disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has determined this control deficiency constitutes a material weakness.

Based on the above described material weakness, our CEO and CFO have concluded that we did not maintain effective internal control over financial reporting as of December 31, 2006, based on the criteria in *Internal Control-Integrated Framework* issued by the COSO.

Our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included in this Annual Report on Form 10-K.

Remediation of Material weakness in Internal Control Over Financial Reporting

Management, with oversight from the Company's Audit Committee, is committed to remediating the material weakness identified above by implementing changes to our internal control over financial reporting. Management is in the process of implementing, the following changes to the Company's internal control over financial reporting:

- We are actively recruiting for the newly created position of Vice President of Accounting/Finance, who will have oversight over all of the accounting functions in the Company;
- We will be actively recruiting accountants with experience and expertise to fill key positions , specifically in the areas of general accounting, revenue and external reporting to replace the contractors who are currently fulfilling such roles;
- We will expand our training to our accounting and finance employees in the various areas of generally accepted accounting principles, particularly in the areas of revenue recognition and stock-based compensation. This will include initial and continuous training, specifically focused on new and developing topics;
- Secondary review controls executed by accounting personnel will be subject to targeted internal audit reviews, specifically with the focus of ensuring such monitoring controls include an in-depth review of the related transactions' source documents and communications with personnel in operations responsible for such transactions;
- We will continue our efforts to review our internal controls over financial reporting with the intent to automate previously manual processes specifically in the areas of contract administration, revenue recognition and stock administration;
- We will continue to improve communications between Finance personnel responsible for completing reviews of the Company's revenue agreements and operations personnel responsible for the execution of work on those transactions;
- We will continue to improve documentation and review standards for SOP 97-2 and 81-1 transactions—inclusive of matters raised by operations personnel during our quarterly revenue recognition review meetings.

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Additionally, management is investing in ongoing efforts to continuously improve the control environment and has committed considerable resources to the continuous improvement of the design, implementation, documentation, testing and monitoring of our internal controls.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors

Our Board of Directors is currently comprised of ten members who are divided into two classes with overlapping two-year terms. We currently have five Class I directors and five Class II directors. At each annual meeting of stockholders, a class of directors is elected for a term of two years to succeed those directors whose terms expire on the annual meeting date. A director serves in office until his or her respective successor is duly elected and qualified or until his or her death or resignation. Any additional directorships resulting from an increase in the number of directors will be distributed among the two classes so that, as nearly as possible, each class will consist of an equal number of directors. Any vacancy occurring mid-term will be filled by a person selected by a majority of the other current members of the Board of Directors. There is no family relationship between any of our directors.

Directors are elected by a plurality of the shares present in person or represented by proxy at our annual meeting and entitled to vote on the election of directors. There are no cumulative voting rights in the election of directors.

Pursuant to the Charter for the Chairperson of the Board of Rambus Inc. (which was adopted in October 2006 and is available on our website at http://investor.rambus.com/governance/chairperson.cfm), a Chairperson, who may not be our Chief Executive Officer, is elected annually by the Board of Directors after our annual meeting. The Chairperson acts as the presiding director at Board meetings and manages the agenda of such meetings, and manages the affairs of the Board, including ensuring that the Board is organized properly, functions effectively, and meets its obligations and responsibilities. The Chairperson also acts as the principal contact for the Chief Executive Officer and other members of the Board and management, as appropriate, for matters requiring the attention of the full Board.

The following table contains information regarding our directors as of May 31, 2007.

Class I Directors Whose Terms are Scheduled to Expire at the Annual Meeting in 2008

Name	Age	Principal Occupation and Business Experience
Sunlin Chou, Ph.D.	60	Dr. Chou was appointed to the Board of Directors in March 2006. Dr. Chou served for 34 years at Intel Corporation, a leader in the semiconductor industry, before retiring in 2005 as a senior vice president. He was co-general manager of the Technology and Manufacturing Group from 1998 to 2005. Dr. Chou holds a B.S., M.S and E.E. in Electrical Engineering from the Massachusetts Institute of Technology and received a Ph.D. in Electrical Engineering from Stanford University.
Bruce Dunlevie	50	Mr. Dunlevie has served as a director since our founding in March 1990. He has been a general partner of the venture capital firm Benchmark Capital since May 1995, and was a general partner of the venture capital firm Merrill, Pickard, Anderson & Eyre between 1989 and 2000. He holds a B.A. in History from Rice University and an M.B.A. from Stanford University. Mr. Dunlevie also serves on the board of Palm, Inc., and several private companies.

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Name	Age	Principal Occupation and Business Experience
Mark Horowitz, Ph.D.	50	Dr. Horowitz has served as a director since our co-founding in March 1990 and has served as chief scientist since May 2005. Dr. Horowitz also served as a vice president from March 1990 to May 1994. Dr. Horowitz has taught at Stanford University since 1984 where he is currently a professor of Electrical Engineering and Computer Science. He holds B.S. and M.S. degrees in Electrical Engineering from the Massachusetts Institute of Technology and received his Ph.D. in Electrical Engineering from Stanford University.
Harold Hughes	61	Mr. Hughes has served as our chief executive officer and president since January 2005 and as a director since June 2003. He served as a United States Army Officer from 1969 to 1972 before starting his private sector career with Intel Corporation. Mr. Hughes held a variety of positions within Intel Corporation from 1974 to 1997, including treasurer, vice president of Intel Capital, chief financial officer, and vice president of Planning and Logistics. Following his tenure at Intel, Mr. Hughes was the chairman and chief executive officer of Pandesic, LLC. He holds a B.A. from the University of Wisconsin and an M.B.A. from the University of Michigan. He also serves as a director of Berkeley Technology, Ltd.
Abraham D. Sofaer	69	Mr. Sofaer has served as a director since May 2005. He has been the George P. Shultz Distinguished Scholar and Senior Fellow at the Hoover Institution at Stanford University since 1994. Mr. Sofaer has a long and distinguished career in the legal profession. Prior to assuming his current roles, he served in private practice as a partner at Hughes, Hubbard & Reed in Washington, DC and as the chief legal adviser to the U.S. Department of State. From 1979 to 1985, Mr. Sofaer served as a U.S. District Judge for the Southern District of New York. He was a professor at the Columbia University School of Law from 1969 to 1979, and from 1967 to 1969 was an Assistant U.S. Attorney in the Southern District of New York. Mr. Sofaer graduated magna cum laude with a B.A. in History from Yeshiva College and received his law degree from the New York University School of Law where he was editor-in-chief of the NYU Law Review. He clerked for Hon. J. Skelly Wright on the U.S. Court of Appeals for the District of Columbia Circuit, and for Justice William J. Brennan, Jr. on the U.S. Supreme Court. Mr. Sofaer currently serves as a director of NTI, Inc. and Gen-Probe, Inc.

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Class II Directors Whose Terms are Scheduled to Expire at the Annual Meeting in 2007

Name	Age	Principal Occupation and Business Experience
J. Thomas Bentley	57	Mr. Bentley has served as a director since March 2005. He served as a managing director at SVB Alliant (formerly Alliant Partners), a mergers and acquisitions firm, since he co-founded the firm in 1990 until October 2005. Mr. Bentley holds a B.A. in Economics from Vanderbilt University and an M.S. in Management from the Massachusetts Institute of Technology. Mr. Bentley currently serves on the board of Nanometrics, Inc.
P. Michael Farmwald, Ph.D.	53	Dr. Farmwald has served as a director since our founding in March 1990 and has served as senior technical advisor since October 2006. In addition, he served as vice president and chief scientist from March 1990 to November 1993. Dr. Farmwald founded Skymoon Ventures, a venture capital firm, in 2000. In addition, Dr. Farmwald has co-founded other semiconductor companies, including Matrix Semiconductor, Inc. in 1997. Dr. Farmwald holds a B.S. in Mathematics from Purdue University and a Ph.D. in Computer Science from Stanford University.
Penelope A. Herscher	46	Ms. Herscher has served as a director since July 2006. She currently holds the position of president and chief executive officer of firstRain, Inc., a custom-configured, on-demand intelligence services firm. Prior to joining firstRain, Ms. Herscher held the position of executive vice president and chief marketing officer at Cadence Design Systems. From 1996 to 2002, Ms. Herscher was president and chief executive officer of Simplex Solutions, which was acquired by Cadence in 2002. Before Simplex, she was an executive at Synopsys for eight years and started her career as an R&D engineer with Texas Instruments. She holds a B.A. with honors in Mathematics from Cambridge University in England. Ms. Herscher serves on the boards of firstRain and several non-profit institutions.
Kevin Kennedy, Ph.D.	51	Dr. Kennedy has served as the non-employee chairman of the Board of Directors since August 2006 and has served as a director since April 2003. He is currently chief executive officer, president and director at JDS Uniphase Corporation, a communications equipment corporation. From August 2001 to September 2003, Dr. Kennedy was the chief operating officer of Openwave Systems, Inc., a software corporation. Prior to joining Openwave Systems Inc., Dr. Kennedy served seven years at Cisco Systems, Inc., a networking corporation, most recently as senior vice president of the Service Provider Line of Business and Software Technologies Division, and 17 years at Bell Laboratories. He holds a B.S. from Lehigh University and an M.S. and Ph.D. from Rutgers University, each in Engineering. Dr. Kennedy is also a director of KLA-Tencor Corp.

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Name	Age	Principal Occupation and Business Experience
David Shrigley	59	Mr. Shrigley has served as a director since October 2006. Mr. Shrigley joined the Board of Directors of Wolfson Microelectronics plc, a supplier of mixed-signal chips for the digital market in November 2006 and became its chief executive officer in March 2007. He served as a general partner at Sevin Rosen Funds, a venture capital firm, from 1999 to 2005. Prior to that, Mr. Shrigley held the position of executive vice president, Marketing, Sales and Service at Bay Networks. Mr. Shrigley served in various executive positions during the prior 18 years at Intel, including vice president and general manager of Asia Pacific Sales and Marketing Operations based in Hong Kong, and vice president and general manager, Corporate Marketing. Mr. Shrigley holds a B.A. from Franklin University.

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Executive Officers

Information regarding our executive officers and their ages and positions as of May 31, 2007, is contained in the table below. Our executive officers are appointed by, and serve at the discretion of, our Board of Directors. There is no family relationship between any of our executive officers.

Name	Age	Position and Business Experience
Kevin S. Donnelly	45	Senior Vice President, Engineering. Mr. Donnelly joined us in 1993. Mr. Donnelly has served in his current position since March 2006. From February 2005 to March 2006, Mr. Donnelly served as co-vice president of Engineering. From October 2002 to February 2005 he served as vice president, Logic Interface Division. Mr. Donnelly held various engineering and management positions before becoming vice president, Logic Interface Division in October 2002. Before joining us, Mr. Donnelly held engineering positions at National Semiconductor, Sipex, and Memorex, over an eight year period. He holds a B.S. in Electrical Engineering and Computer Sciences from the University of California, Berkeley, and an M.S. in Electrical Engineering from San Jose State University.
Sharon E. Holt	42	Senior Vice President, Worldwide Sales, Licensing and Marketing. Ms. Holt has served as our senior vice president, Worldwide Sales, Licensing and Marketing (formerly titled Worldwide Sales and Marketing) since joining us in August 2004. From November 1999 to July 2004, Ms. Holt held various positions at Agilent Technologies, Inc., an electronics instruments and controls company, most recently as vice president and general manager, Americas Field Operations, Semiconductor Products Group. Prior to Agilent Technologies, Inc., Ms. Holt held various engineering, marketing, and sales management positions at Hewlett-Packard Company, a hardware manufacturer. Ms. Holt holds a B.S. in Electrical Engineering, with a minor in Mathematics, from the Virginia Polytechnic Institute and State University.
Harold Hughes	61	Chief Executive Officer and President. Mr. Hughes has served as our chief executive officer and president since January 2005 and as a director since June 2003. He served as a United States Army Officer from 1969 to 1972 before starting his private sector career with Intel Corporation. Mr. Hughes held a variety of positions within Intel Corporation from 1974 to 1997, including treasurer, vice president of Intel Capital, chief financial officer, and vice president of Planning and Logistics. Following his tenure at Intel, Mr. Hughes was the chairman and chief executive officer of Pandesic, LLC. He holds a B.A. from the University of Wisconsin and an M.B.A. from the University of Michigan. He also serves as a director of Berkeley Technology, Ltd.
Thomas Lavelle	57	Senior Vice President and General Counsel. Mr. Lavelle has served in his current position since December 2006. Previous to that, Mr. Lavelle served as vice president and general counsel at Xilinx, one of the world's leading suppliers of programmable chips. Mr. Lavelle joined Xilinx in 1999 after spending more than 15 years at Intel Corporation where he held various positions in the legal department. Mr. Lavelle earned a J.D. from Santa Clara University School of Law and a B.A. from the University of California at Los Angeles.

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Name	Age	Position and Business Experience
Satish Rishi	47	Senior Vice President, Finance and Chief Financial Officer. Mr. Rishi joined us in his current position in April 2006. Prior to joining us, Mr. Rishi held the position of executive vice president of Finance and chief financial officer of Toppan Photomasks, Inc., (formerly DuPont Photomasks, Inc.) one of the world's leading photomask providers, from November 2001 to April 2006. During his 20-year career, Mr. Rishi has held senior financial management positions at semiconductor and electronic manufacturing companies. He served as vice president and assistant treasurer at Dell Inc. Prior to Dell, Mr. Rishi spent 13 years at Intel Corporation, where he held financial management positions both in the United States and overseas, including assistant treasurer. Mr. Rishi holds a B.S. with honors in Mechanical Engineering from Delhi University in Delhi, India and an M.B.A. from the University of California at Berkeley's Haas School of Business. He also serves as a director of Measurement Specialties, Inc.
Michael Schroeder	47	Vice President, Human Resources. Mr. Schroeder has served as our vice president, Human Resources since joining us in June 2004. From April 2003 to May 2004, Mr. Schroeder was vice president, Human Resources at DigitalThink, Inc., an online service company. From August 2000 to August 2002, Mr. Schroeder served as vice president, Human Resources at Alphablox Corporation, a software company. From August 1992 to August 2000, Mr. Schroeder held various positions at Synopsys, Inc., a software and programming company, including vice president, California Site Human Resources, group director Human Resources, director Human Resources and employment manager. Mr. Schroeder attended the University of Wisconsin, Milwaukee and studied Russian.
Martin Scott, Ph.D.	52	Senior Vice President, Engineering. Dr. Scott has served in his current position since December 2006. Dr. Scott joined us from PMC-Sierra, Inc., a provider of broadband communications and storage integrated circuits, where he was most recently vice president and general manager of its Microprocessor Products Division from March 2006. Dr. Scott was the vice president and general manager for the I/O Solutions Division (which was purchased by PMC-Sierra) of Avago Technologies Limited, an analog and mixed signal semiconductor components and subsystem company, from October 2005 to March 2006. Dr. Scott held various positions at Agilent Technologies, including as vice president and general manager for the I/O Solutions division from October 2004 to October 2005, when the division was purchased by Avago Technologies, vice president and general manager of the ASSP Division from March 2002 until October 2004, and, before that, Network Products operation manager. Dr. Scott started his career in 1981 as a member of the technical staff at Hewlett Packard Laboratories and held various management positions at Hewlett Packard and was appointed ASIC business unit manager in 1998. He earned a B.S. from Rice University and holds both an M.S. and Ph.D. from Stanford University.

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Name	Age	Position and Business Experience
Laura S. Stark	38	Senior Vice President, Platform Solutions. Ms. Stark joined us in 1996 as strategic accounts manager, and held the positions of strategic accounts director and vice president, Alliances and Infrastructure, before assuming the position of vice president, Memory Interface Division in October 2002. She held this position until February 2005 when she was appointed to her current position. Prior to that, Ms. Stark held various positions in the semiconductor products division of Motorola, a communications equipment company, during a six year tenure, including technical sales engineer for the Apple sales team and field application engineer for the Sun and SGI sales teams. Ms. Stark holds a B.S. in Electrical Engineering from the Massachusetts Institute of Technology.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act requires our executive officers, directors and ten percent stockholders to file reports of ownership and changes in ownership with the SEC. The same persons are required to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of these forms, we believe that during fiscal 2006 all of our executive officers, directors and ten percent stockholders complied with the applicable filing requirements except for late Forms 4 filed on behalf of Mr. Bentley, Mr. Chou, Mr. Dunlevie, Dr. Farmwald, Mr. Kennedy and Mr. Sofaer. The late filings for Mr. Bentley, Mr. Chou, Mr. Dunlevie, Dr. Farmwald, Dr. Kennedy and Mr. Sofaer were related to automatic grants of stock options to these directors made on October 2, 2006 that was inadvertently reported late by us on their behalf on October 11, 2006.

Code of Business Conduct and Ethics

We have a Code of Business Conduct and Ethics for all of our directors, officers and employees. Our Code of Business Conduct and Ethics is available on our website at http://investor.rambus.com/governance/ethics.cfm /. In addition, stockholders may request a free copy of our Code of Business Conduct and Ethics from:

Rambus Inc.
Attention: Investor Relations
4440 El Camino Real
Los Altos, CA 94022
Tel: 650-947-5050

To date, there have been no waivers under our Code of Business Conduct and Ethics. We will post any waivers, if and when granted, of our Code of Business Conduct and Ethics on our website at http://investor.rambus.com/governance/ethics.cfm.

Audit Committee

Currently, the Audit Committee is comprised of Mr. Bentley, Mr. Sofaer and Mr. Chou, with Mr. Bentley serving as Chairman. The Audit Committee oversees our corporate accounting and financial reporting processes and controls, as well as our internal and external audits. Its duties include:

- Reviewing our accounting and financial reporting processes and internal controls,
- Providing oversight and review at least annually of our risk management policies, including our investment policies,

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- Retaining the independent auditors, approving their fees, and providing oversight and communication with them,
- Reviewing the plans, findings and performance of our internal auditors,
- Reviewing our annual, quarterly and other financial statements and related disclosure documents, and
- Overseeing special investigations into financial and other matters, as necessary, such as the independent investigation into historical stock option grants.

Our Board of Directors has determined that Mr. Bentley is the "Audit Committee financial expert" and that Mr. Bentley, together with each of Mr. Sofaer and Mr. Chou, has no material relationship with us (either directly as a partner, stockholder or officer of an organization that has a relationship with us) and is "independent" as defined under NASD Rule 4200 and the applicable rules promulgated by the SEC.

The Audit Committee's role is detailed in the Audit Committee Charter, which was amended and restated by our Board of Directors on April 4, 2007, and is available on our website at http://investor.rambus.com/governance/governance.cfm

Item 11. Executive Compensation

Compensation Discussion and Analysis

Overview of Compensation Program

We develop leading-edge chip interface technology years ahead of the market's needs. We provide this technology to our customers through both patent licenses and through licenses for our leadership (Rambus-proprietary) architectures and designs. As our innovations are often adopted into industry-standard solutions, we license industry-standard designs as a further service for our customers.

Our business model requires that we attract and retain the best scientific and engineering personnel in our field of focus in order to realize our fundamental competitive advantage and deliver the greatest value for our stockholders. Because our technology is foundational in the large and growing market for digital electronics, competition for qualified individuals is fierce. Thus, our compensation program is designed to attract and retain the best talent, especially leading scientists and engineers, in the industry.

Our guiding philosophy for all of our employees is that total compensation (i.e., base salary, annual incentive bonus, long-term equity grants and other employee benefits and arrangements) should correlate highly to achievement of our financial and non-financial objectives. We also grant long-term, equity-based and cash incentive compensation in order to more closely align the long-term interests of management with those of our stockholders. Total compensation is tied both to company and individual performance. We strive to reward our employees, regardless of level, commensurate with their contributions, sustained performance and value created. This philosophy reflects our key strategic compensation design priorities: pay for performance, employee retention, cost management, and continued focus on corporate governance. Our total compensation philosophy is posted on our website at http://investor.rambus.com/governance/total_comp.cfm

This Compensation Discussion and Analysis presents our compensation policies, programs, and practices for the named executive officers presented on the Summary Compensation Table appearing later in this report.